

§ 1.1014-7

1014(b)(9) shall be the aggregate of the deductions allowed in respect of the property, but shall not include deductions allowed in respect of the property to the decedent himself. In cases where, owing to the operation of the estate tax, only a part of the value of the entire property is included in the decedent's gross estate, the amount of the reduction required by section 1014(b)(9) shall be an amount which bears the same relation to the total of all deductions (described in paragraph (a) of this section) allowed in respect of the property as the value of the property included in the decedent's gross estate bears to the value of the entire property.

(2) The application of this paragraph may be illustrated by the following examples:

Example 1. The decedent creates a trust to pay the income to A for life, remainder to B or his estate. The property transferred in trust consists of an apartment building with a basis of \$50,000 at the time of the transfer. The decedent dies 2 years after the transfer is made and the gift is held to have been made in contemplation of death. Depreciation on the property was allowed in the amount of \$1,000 annually. At the time of the decedent's death the value of the property is \$58,000. The uniform basis of the property in the hands of the trustee, the life tenant, and the remainderman, immediately after the decedent's death is \$56,000 (\$58,000, fair market value of the property immediately after the decedent's death, reduced by \$2,000, deductions for depreciation allowed prior to the decedent's death).

Example 2. The decedent creates a trust to pay the income to A for life, remainder to B or his estate. The trust instrument provides that if the decedent should survive A, the income shall be paid to the decedent for life. The decedent predeceases A and the present value of the remainder interest is included in the decedent's gross estate for estate tax purposes. The property transferred consists of an apartment building with a basis of \$110,000 at the time of the transfer. Following the creation of the trust and during the balance of the decedent's life, deductions for depreciation were allowed on the property in the amount of \$10,000. At the time of decedent's death the value of the entire property is \$150,000, and the value of the remainder interest is \$100,000. Accordingly, the uniform basis of the property in the hands of the trustee, the life tenant, and the remainderman, as adjusted under section 1014(b)(9), is \$126,666, computed as follows:

Uniform basis prior to decedent's death \$100,000

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plus	
Increase in uniform basis—before reduction (determined by the following formula)	33,333
[Increase in uniform basis (to be determined)/\$50,000 (total appreciation of property since time of transfer)]=	
[\$100,000 (value of property included in gross estate)/\$150,000 (value of entire property)]	
less	133,333
Deductions allowed prior to decedent's death—taken into account under section 1014(b)(9) (determined by the following formula)	6,667
[Prior deductions taken into account (to be determined) \$10,000 (total deductions allowed prior to decedent's death)]=	
[\$100,000 (value of property included in gross estate) \$150,000 (value of entire property)]	
Uniform basis under section 1014	126,666

[T.D. 6500, 25 FR 11910, Nov. 26, 1960, as amended by T.D. 6712, 29 FR 3656, Mar. 24, 1964; T.D. 7142, 36 FR 18952, Sept. 24, 1971]

§ 1.1014-7 Example applying rules of §§ 1.1014-4 through 1.1014-6 to case involving multiple interests.

(a) On January 1, 1950, the decedent creates a trust to pay the income to A for life, remainder to B or his estate. The trust instrument provides that if the decedent should survive A, the income shall be paid to the decedent for life. The decedent, who died on January 1, 1955, predeceases A, so that, due to the operation of the estate tax, only the present value of the remainder interest is included in the decedent's gross estate. The trust consists of an apartment building with a basis of \$30,000 at the time of transfer. Under the trust instrument the trustee is required to maintain a reserve for depreciation. During the decedent's lifetime depreciation is allowed in the amount of \$800 annually. At the time of the decedent's death the value of the apartment building is \$45,000. A, the life tenant, is 43 years of age at the time of the decedent's death. Immediately after the decedent's death, the uniform basis of the entire property under section 1014(a) is \$32,027; A's basis for the life interest is \$15,553; and B's basis for the remainder interest is \$16,474, computed as follows:

<i>Step 1.</i> Uniform basis (adjusted) immediately prior to decedent's death:	
Basis at time of transfer	\$30,000
less	
Depreciation allowed under section 1016 before decedent's death (\$800 × 5)	4,000

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<i>Step 2.</i> Value of property included in decedent's gross estate:	26,000
0.40180 (remainder factor, age 43) × \$45,000 (value of entire property)	\$18,081
<i>Step 3.</i> Uniform basis of property under section 1014(a), before reduction required by section 1014(b)(9):	
Uniform basis (adjusted) prior to decedent's death	26,000
Increase in uniform basis (determined by the following formula)	7,634
Increase in uniform basis (to be determined) \$19,000 (total appreciation, \$45,000 – \$26,000) = \$18,081 (value of property included in gross estate) \$45,000 (value of entire property)]	
	33,634
<i>Step 4.</i> Uniform basis reduced as required by section 1014(b)(9) for deductions allowed prior to death:	
Uniform basis before reduction	\$33,634
less	
Deductions allowed prior to decedent's death—taken into account under section 1014(b)(9) (determined by the following formula)	1,607
Prior deductions taken into account (to be determined) \$4,000 (total deductions allowed prior to decedent's death)] =	
\$18,081 (value of property included in gross estate) \$45,000 (value of entire property)	
	32,027
<i>Step 5.</i> A's basis for the life interest at the time of the decedent's death, determined under section 1015: 0.59820 (life factor, age 43) × \$26,000	15,553
<i>Step 6.</i> B's basis for the remainder interest, determined under section 1014(a): Basis prior to the decedent's death:	
0.40180 (remainder factor, age 43) × \$26,000	10,447
plus	
Increase in uniform basis owing to decedent's death:	
Increase in uniform basis	\$7,634
plus	
Reduction required by section 1014(b)(9)	1,607
	6,027
	16,474

(b) Assume the same facts as in paragraph (a) of this section. Assume further, that following the decedent's death depreciation is allowed in the amount of \$1,000 annually. As of January 1, 1964, when A's age is 52, the adjusted uniform basis of the entire property is \$23,027; A's basis for the life interest is \$9,323; and B's basis for the remainder interest is \$13,704, computed as follows:

<i>Step 7.</i> Uniform basis (adjusted) as of January 1, 1964:	
Uniform basis determined under section 1014(a), reduced as required by section 1014(b)(9)	\$32,027
less	
Depreciation allowed since decedent's death (\$1,000 × 9)	9,000
	23,027

<i>Step 8.</i> Allocable share of adjustment for depreciation allowable in the nine years since the decedent's death:	
<i>A's interest</i>	
0.49587 (life factor, age 52) × \$7,200 (\$800, depreciation attributable to uniform basis before increase under section 1014(a), ×9)	3,570
<i>B's interest</i>	
0.50413 (remainder factor, age 52) × \$7,200 (\$800, depreciation attributable to uniform basis before increase under section 1014(a), ×9)	3,630
plus	
\$200 (annual depreciation attributable to increase in uniform basis under section 1014(a)) × 9	1,800
	5,430
<i>Step 9.</i> Tentative bases of A's and B's interests as of January 1, 1964 (before adjustment for depreciation):	
<i>A's interest</i>	
0.49587 (life factor, age 52) × \$26,000 (adjusted uniform basis immediately before decedent's death)	12,893
<i>B's interest</i>	
0.50413 (remainder factor, age 52) × \$26,000 (adjusted uniform basis immediately before decedent's death)	13,107
plus	
Increase in uniform basis owing to inclusion of remainder in decedent's gross estate	6,027
	19,134
<i>Step 10.</i> Bases of A's and B's interests as of January 1, 1964.	
<i>A</i>	
Tentative basis (Step 9)	12,893
less	
Allocable depreciation (Step 8)	3,570
	9,323
<i>B</i>	
Tentative basis (Step 9)	19,134
less	
Allocable depreciation (Step 8)	5,430
	13,704

§ 1.1014-8 Bequest, devise, or inheritance of a remainder interest.

(a)(1) Where property is transferred for life, with remainder in fee, and the remainderman dies before the life tenant, no adjustment is made to the uniform basis of the property on the death of the remainderman (see paragraph (a) of § 1.1014-4). However, the basis of the remainderman's heir, legatee, or devisee for the remainder interest is determined by adding to (or subtracting from) the part of the adjusted uniform basis assigned to the remainder interest (determined in accordance with the principles set forth in §§ 1.1014-4 through 1.1014-6) the difference between—

(i) The value of the remainder interest included in the remainderman's estate, and